

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

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Knoxville Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 election)		
Scott Chambers	President	2005
Dennis Goad	Vice President	2005
Mike Husted	Board Member	2006
Mike Helle	Board Member	2007
Jeff Wallace	Board Member	2007

Board of Education (After September 2005 election)

Dennis Goad	President	2008
Mike Husted	Vice President	2006
Mike Helle	Board Member	2007
Jeff Wallace	Board Member	2007
Scott Chambers	Board Member	2008

School Officials

Dr. Randy Flack	Superintendent	2006
Craig Mobley	Business Manager and District Secretary/Treasurer	2006
Ed Bittle	Attorney	2006

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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Knoxville Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Knoxville Community School District, Knoxville, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Knoxville Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2006 on our consideration of Knoxville Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Knoxville Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 10, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Knoxville Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$14,344,876 in fiscal 2005 to \$14,699,225 in fiscal 2006, while General Fund expenditures increased from \$14,052,980 in fiscal 2005 to \$14,896,120 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$2,369,546 in fiscal 2005 to a balance of \$2,172,651 in fiscal 2006, an 8.31% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2006. The increase in expenditures was due primarily to an increase in instruction and support services functions.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Knoxville Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Knoxville Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Knoxville Community School District acts solely as an agent or custodial for the benefit of those outside of District government.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Knoxville Community School District Annual Financial Report

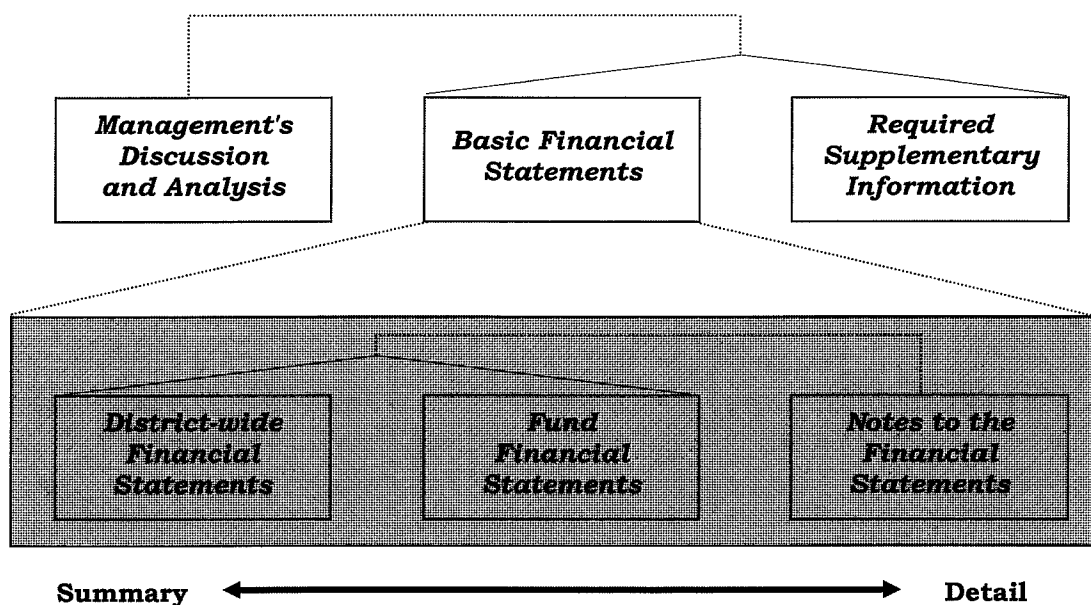


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and the Internal Service Funds.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 12,790,742	9,557,417	393,519	324,956	13,184,261	9,882,373	33.41%
Capital assets	12,227,027	9,142,518	75,497	66,119	12,302,524	9,208,637	33.60%
Total assets	25,017,769	18,699,935	469,016	391,075	25,486,785	19,091,010	33.50%
Long-term obligations	11,391,281	7,090,323	15,897	22,956	11,407,178	7,113,279	60.36%
Other liabilities	7,582,725	6,725,771	62,777	61,899	7,645,502	6,787,670	12.64%
Total liabilities	18,974,006	13,816,094	78,674	84,855	19,052,680	13,900,949	37.06%
Net assets:							
Invested in capital assets, net of related debt	4,849,767	3,644,583	75,497	66,119	4,925,264	3,710,702	32.73%
Restricted	327,576	387,101	0	0	327,576	387,101	-15.38%
Unrestricted	866,420	852,157	314,845	240,101	1,181,265	1,092,258	8.15%
Total net assets	\$ 6,043,763	4,883,841	390,342	306,220	6,434,105	5,190,061	23.97%

The District's combined net assets increased by 23.97%, or \$1,244,044, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$59,525, or 15.38% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$89,007, or 8.15%. This increase in unrestricted net assets was a result of the District's increase in the Nutrition Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,029,533	1,081,120	454,569	463,252	1,484,102	1,544,372	-3.90%
Operating grants and contributions and restricted interest	1,740,022	1,647,524	321,141	293,019	2,061,163	1,940,543	6.22%
General revenues:							
Property tax	5,236,897	5,323,536	0	0	5,236,897	5,323,536	-1.63%
Local option sales and services tax	1,199,400	952,187	0	0	1,199,400	952,187	25.96%
Unrestricted state grants	8,442,048	8,145,863	0	0	8,442,048	8,145,863	3.64%
Other	306,772	87,389	10,618	2,062	317,390	89,451	254.82%
Total revenues	17,954,672	17,237,619	786,328	758,333	18,741,000	17,995,952	4.14%
Program expenses:							
Governmental activities:							
Instructional	10,174,383	9,537,565	0	0	10,174,383	9,537,565	6.68%
Support services	4,847,041	4,940,895	688	0	4,847,729	4,940,895	-1.89%
Non-instructional programs	(11,926)	(5,240)	701,518	699,330	689,592	694,090	-0.65%
Other expenses	1,785,252	1,361,792	0	0	1,785,252	1,361,792	31.10%
Total expenses	16,794,750	15,835,012	702,206	699,330	17,496,956	16,534,342	5.82%
Changes in net assets	1,159,922	1,402,607	84,122	59,003	1,244,044	1,461,610	-14.89%
Beginning net assets	4,883,841	3,481,234	306,220	247,217	5,190,061	3,728,451	39.20%
Ending net assets	\$ 6,043,763	4,883,841	390,342	306,220	6,434,105	5,190,061	23.97%

Property tax, local option sales and services tax and unrestricted state grants account for 79% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will ever be fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

Governmental Activities

Revenues for governmental activities were \$17,954,672 and expenses were \$16,794,750.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 10,174,383	7,999,713
Support services	4,847,041	4,841,071
Non-instructional programs	(11,926)	(12,226)
Other expenses	1,785,252	1,196,637
Totals	<u>\$ 16,794,750</u>	<u>14,025,195</u>

- The cost financed by users of the District's programs was \$1,029,533.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,740,022.
- The net cost of governmental activities was financed with \$5,236,897 in property tax, \$1,199,400 in local option sales and services tax, \$8,442,048 in state foundation aid, \$261,864 in interest income and \$44,908 in miscellaneous sources.

Business-Type Activities

Revenues of the District's business-type activities were \$786,328 and expenses were \$702,206. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Knoxville Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$4,930,049, above last year's ending fund balance of \$2,543,614. The primary reason for the increase in combined fund balance in fiscal 2006 is due to the issuance of local option sales and services tax revenue bonds.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in state grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures decreasing the District carryover fund balance which will be used in the future to meet its financial obligations during the next year.
- The General Fund balance decreased from \$2,369,546 to \$2,172,651, due in part to the increase in negotiated salary and benefits settlement, as well as the District paid for property and liability insurance premiums.

-
- The Capital Projects Fund balance increased from \$208,242 in fiscal 2005 to \$2,004,866 in fiscal 2006. The District issued \$5,010,000 in local option sales and services tax revenue bonds for construction during the year.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$306,220 at June 30, 2005 to \$390,342 at June 30, 2006, representing an increase of 27.47%. For fiscal 2006, the District had an increase in revenues of \$27,995.

BUDGETARY HIGHLIGHTS

Over the course of the year, Knoxville Community School District amended its annual budget one time to reflect additional expenditures associated with the issuance of revenue bonds in the Capital Project Fund.

The District's revenues were \$187,170 more than budgeted revenues, a variance of 1.01%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction function due to the chart of accounts reclassifications required by the State for the certified annual report upload without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$12,302,524, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 25.15% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$426,006.

The original cost of the District's capital assets was \$19,629,376. Governmental funds account for \$19,232,793 with the remainder of \$396,583 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$3,575,008 at June 30, 2006, compared to \$195,650 reported at June 30, 2005. This increase resulted from the construction project being started that is not completed at the year end.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 63,966	63,966	0	0	63,966	63,966	0.00%
Construction in progress	3,575,008	195,650	0	0	3,575,008	195,650	94.53%
Buildings	8,050,494	8,321,630	0	0	8,050,494	8,321,630	-3.37%
Machinery and equipment	537,559	561,272	75,497	66,119	613,056	627,391	-2.34%
Total	<u>\$ 12,227,027</u>	<u>9,142,518</u>	<u>75,497</u>	<u>66,119</u>	<u>12,302,524</u>	<u>9,208,637</u>	<u>25.15%</u>

Long-Term Debt

At June 30, 2006, the District had \$11,391,281 in general obligation and other long-term debt outstanding. This represents an increase of 60.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$4,955,000 at June 30, 2006.

The District had outstanding revenue bonds of \$5,010,000 at June 30, 2006.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$1,426,281 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 4,955,000	5,555,000	-10.8%
Revenue bonds	5,010,000	0	100.0%
Early Retirement	1,426,281	1,535,323	-7.1%
Totals	<u>\$ 11,391,281</u>	<u>7,090,323</u>	<u>60.7%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced fluctuating enrollment for a few years, the District expects enrollment to slightly decline over the next few years.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Craig Mobley, District Treasurer and Business Manager, Knoxville Community School District, 309 W Main, Knoxville, Iowa, 50138.

BASIC FINANCIAL STATEMENTS

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
U.S. Treasury Securities	\$ 646,365	0	646,365
Other	6,438,706	380,406	6,819,112
Receivables:			
Property tax:			
Delinquent	93,406	0	93,406
Succeeding year	4,905,136	0	4,905,136
Income surtax	319,218	0	319,218
Accounts	4,840	636	5,476
Due from other governments	383,071	0	383,071
Inventories	0	12,477	12,477
Capital assets, net of accumulated depreciation(Note 4)	12,227,027	75,497	12,302,524
TOTAL ASSETS	25,017,769	469,016	25,486,785
LIABILITIES			
Accounts payable	1,030,151	2,433	1,032,584
Salaries and benefits payable	1,488,023	48,633	1,536,656
Interest payable	150,149	0	150,149
Deferred revenue:			
Succeeding year property tax	4,905,136	0	4,905,136
Other	9,266	0	9,266
Unearned revenue	0	11,711	11,711
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds payable	625,000	0	625,000
Early retirement payable	424,962	0	424,962
Truck lease payable(Note 7)	0	7,756	7,756
Portion due after one year:			
General obligation bonds payable	4,330,000	0	4,330,000
Revenue bonds payable	5,010,000	0	5,010,000
Early retirement payable	1,001,319	0	1,001,319
Truck lease payable(Note 7)	0	8,141	8,141
TOTAL LIABILITIES	18,974,006	78,674	19,052,680
NET ASSETS			
Investment in capital assets, net of related debt	4,849,767	75,497	4,925,264
Restricted for:			
Talented and gifted	191,108	0	191,108
Salary improvement program	63,817	0	63,817
Physical plant and equipment levy	55,073	0	55,073
Other special revenue purposes	17,578	0	17,578
Unrestricted	866,420	314,845	1,181,265
TOTAL NET ASSETS	\$ 6,043,763	390,342	6,434,105

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 5,953,864	475,795	1,038,033	(4,440,036)	0
Special instruction	2,028,363	31,968	107,753	(1,888,642)	0
Other instruction	2,192,156	521,121	0	(1,671,035)	0
	<u>10,174,383</u>	<u>1,028,884</u>	<u>1,145,786</u>	<u>(7,999,713)</u>	<u>0</u>
Support services:					
Student services	414,952	0	0	(414,952)	0
Instructional staff services	389,630	0	0	(389,630)	0
Administration services	1,908,789	0	0	(1,908,789)	0
Operation and maintenance of plant services	1,552,108	0	0	(1,552,108)	0
Transportation services	581,562	649	5,321	(575,592)	0
	<u>4,847,041</u>	<u>649</u>	<u>5,321</u>	<u>(4,841,071)</u>	<u>0</u>
Non-instructional programs:					
Food service operations	(12,026)	0	0	12,026	0
Other enterprise operations	100	0	300	200	0
	<u>(11,926)</u>	<u>0</u>	<u>300</u>	<u>12,226</u>	<u>0</u>
Other expenditures:					
Facilities and acquisitions	524,203	0	0	(524,203)	0
Long-term debt interest	401,298	0	0	(401,298)	0
AEA flowthrough	588,615	0	588,615	0	0
Depreciation (unallocated)*	271,136	0	0	(271,136)	0
	<u>1,785,252</u>	<u>0</u>	<u>588,615</u>	<u>(1,196,637)</u>	<u>0</u>
Total governmental activities	16,794,750	1,029,533	1,740,022	(14,025,195)	0
Business-Type activities:					
Support services					
Nutrition services	688	0	0	0	(688)
Non-instructional programs:					
Nutrition services	701,518	454,569	321,141	0	74,192
Total business-type activities	<u>702,206</u>	<u>454,569</u>	<u>321,141</u>	<u>0</u>	<u>73,504</u>
Total	<u>\$ 17,496,956</u>	<u>1,484,102</u>	<u>2,061,163</u>	<u>(14,025,195)</u>	<u>73,504</u>
General Revenues:					
Local tax for:					
General purposes				\$ 4,308,078	0
Debt Service				835,063	0
Capital outlay				93,756	0
Local option sales and services tax				1,199,400	0
Unrestricted state grants				8,442,048	0
Unrestricted investment earnings				261,864	10,618
Miscellaneous				44,908	0
Total general revenues				<u>15,185,117</u>	<u>10,618</u>
Changes in net assets				1,159,922	84,122
Net assets beginning of year				4,883,841	306,220
Net assets end of year				<u>\$ 6,043,763</u>	<u>390,342</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments				
U.S. Treasury Securities	\$ 0	0	646,365	646,365
Other	3,529,783	2,669,357	80,110	6,279,250
Receivables:				
Property tax:				
Delinquent	67,349	0	26,057	93,406
Succeeding year	3,563,187	0	1,341,949	4,905,136
Income surtax	319,218	0	0	319,218
Accounts	4,360	0	0	4,360
Due from other governments	125,442	257,629	0	383,071
TOTAL ASSETS	\$ 7,609,339	2,926,986	2,094,481	12,630,806
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 56,994	922,120	0	979,114
Salaries and benefits payable	1,488,023	0	0	1,488,023
Deferred revenue:				
Succeeding year property tax	3,563,187	0	1,341,949	4,905,136
Income surtax	319,218	0	0	319,218
Other	9,266	0	0	9,266
Total liabilities	5,436,688	922,120	1,341,949	7,700,757
Fund balances:				
Reserved for:				
Talented and gifted	191,108	0	0	191,108
Salary improvement program	63,817	0	0	63,817
Debt service	0	0	733,023	733,023
Unreserved:				
General	1,917,726	0	0	1,917,726
Capital Projects	0	2,004,866	0	2,004,866
Management	0	0	(53,142)	(53,142)
Physical plant and equipment levy	0	0	55,073	55,073
Other special revenue purposes	0	0	17,578	17,578
Total fund balances	2,172,651	2,004,866	752,532	4,930,049
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,609,339	2,926,986	2,094,481	12,630,806

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$ 4,930,049
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	12,227,027
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	108,899
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	319,218
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(150,149)
Long-term liabilities, including bonds payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(11,391,281)
Net assets of governmental activites (page 14)	<u><u>\$ 6,043,763</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,856,474	1,199,400	1,380,423	6,436,297
Tuition	435,713	0	0	435,713
Other	225,268	126,843	548,781	900,892
State sources	9,666,649	0	0	9,666,649
Federal sources	515,121	0	0	515,121
Total revenues	14,699,225	1,326,243	1,929,204	17,954,672
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	5,876,064	0	356,647	6,232,711
Special instruction	2,059,686	0	0	2,059,686
Other instruction	1,650,471	0	541,685	2,192,156
	9,586,221	0	898,332	10,484,553
Support services:				
Student services	429,577	0	0	429,577
Instructional staff services	389,630	0	0	389,630
Administration services	1,858,390	0	787	1,859,177
Operation and maintenance of plant services	1,505,866	0	8,837	1,514,703
Transportation services	537,821	0	0	537,821
	4,721,284	0	9,624	4,730,908
Non-instructional programs:				
Other enterprise operations	0		100	100
Other expenditures:				
Facilities acquisitions	0	3,868,901	34,660	3,903,561
Long-term debt:				
Principal	0	0	600,000	600,000
Interest and fiscal charges	0	36,945	233,555	270,500
AEA flowthrough	588,615	0	0	588,615
	588,615	3,905,846	868,215	5,362,676
Total expenditures	14,896,120	3,905,846	1,776,271	20,578,237
Excess(deficiency) of revenues over(under) expenditures	(196,895)	(2,579,603)	152,933	(2,623,565)
Other financing sources(uses):				
Issuance of revenue bonds	0	5,010,000	0	5,010,000
Transfer in	0	0	633,773	633,773
Transfer out	0	(633,773)	0	(633,773)
Total other financing sources(uses)	0	4,376,227	633,773	5,010,000
Net change in fund balances	(196,895)	1,796,624	786,706	2,386,435
Fund balance beginning of year	2,369,546	208,242	(34,174)	2,543,614
Fund balance end of year	\$ 2,172,651	2,004,866	752,532	4,930,049

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ 2,386,435

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 3,501,997	
Depreciation expense	<u>(417,488)</u>	3,084,509

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 120,734

Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issuances exceeded repayments, as follows:

Issued	\$ (5,010,000)	
Repaid	<u>600,000</u>	(4,410,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (130,798)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	<u>109,042</u>
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Changes in net assets of governmental activities (page 15) \$ 1,159,922

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-Type Activities	
	Enterprise: Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 380,406	159,456
Accounts receivable	636	480
Inventories	12,477	0
Capital assets, net of accumulated depreciation (Note 4)	75,497	0
TOTAL ASSETS	469,016	159,936
LIABILITIES		
Accounts payable	2,433	51,037
Salaries and benefits payable	48,633	0
Unearned revenue	11,711	0
Truck lease payable (Note 8)	15,897	0
TOTAL LIABILITIES	78,674	51,037
NET ASSETS		
Investment in capital assets, net of related debt	75,497	0
Unrestricted	314,845	108,899
TOTAL NET ASSETS	\$ 390,342	108,899

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 454,569	2,252,123
TOTAL OPERATING REVENUES	454,569	2,252,123
OPERATING EXPENSES:		
Support services:		
Administration services:		
Benefits	0	2,131,389
Services	688	0
	688	2,131,389
Non-instructional programs:		
Food service operations:		
Salaries	231,776	0
Benefits	83,913	0
Services	17,045	0
Supplies	360,266	0
Depreciation	8,518	0
	701,518	0
TOTAL OPERATING EXPENSES	702,206	2,131,389
OPERATING INCOME (LOSS)	(247,637)	120,734
NON-OPERATING REVENUES:		
State sources	8,666	0
Federal sources	312,475	0
Interest on investments	10,618	0
TOTAL NON-OPERATING REVENUES	331,759	0
Change in net assets	84,122	120,734
Net assets beginning of year	306,220	(11,835)
Net assets end of year	\$ 390,342	108,899

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 449,894	0
Cash received from miscellaneous	198	2,251,643
Cash payments to employees for services	(318,839)	0
Cash payments to suppliers for goods or services	(328,697)	(2,080,352)
Net cash provided by(used in) operating activities	(197,444)	171,291
Cash flows from non-capital financing activities:		
Interfund loan payments	0	(30,500)
State grants received	8,666	0
Federal grants received	278,157	0
Net cash provided by(used in) non-capital financing activities	286,823	(30,500)
Cash flows from capital and related financing activities:		
Capital lease payments	(7,059)	0
Purchase of capital assets	(17,896)	0
Net cash used in capital and related financing activities	(24,955)	0
Cash flows from investing activities:		
Interest on investments	10,618	0
Net cash provided by investing activities	10,618	0
Net increase in cash and cash equivalents	75,042	140,791
Cash and cash equivalents at beginning of year	305,364	18,665
Cash and cash equivalents at end of year	\$ 380,406	159,456
Reconciliation of operating loss to net cash used in operating activities:		
Operating income(loss)	\$ (247,637)	120,734
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	34,318	0
Depreciation	8,518	0
Decrease in inventories	5,768	0
(Increase)Decrease in accounts receivable	711	(480)
Increase in accounts payable	2,157	51,037
Decrease in salaries and benefits payable	(3,150)	0
Increase in unearned revenue	1,871	0
Net cash provided by(used in) operating activities	\$ (197,444)	171,291
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 380,406	159,456

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$34,318.

During the year ended June 30, 2006, the District paid interest of \$1,155 as part of the 2004 Isuzu Truck capital lease.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Knoxville Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Knoxville, Iowa, and the predominate agricultural territory in Marion County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Knoxville Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Knoxville Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The Nutrition fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating

revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction function exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 6,756,796</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2006, the District had investments in U.S. Treasury Securities as follows:

Type	Fair Value
U.S. Treasury Securities	\$ 646,365

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 633,772

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 424,787	17,896	46,100	396,583
Less accumulated depreciation	358,668	8,518	46,100	321,086
Business-type activities capital assets, net	\$ 66,119	9,378	0	75,497

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,966	0	0	63,966
Construction in progress	195,650	3,379,358	0	3,575,008
Total capital assets not being depreciated	259,616	3,379,358	0	3,638,974
Capital assets being depreciated:				
Buildings	12,866,216	0	0	12,866,216
Machinery and equipment	2,717,755	122,639	112,791	2,727,603
Total capital assets being depreciated	15,583,971	122,639	112,791	15,593,819
Less accumulated depreciation for:				
Buildings	4,544,586	271,136	0	4,815,722
Machinery and equipment	2,156,483	146,352	112,791	2,190,044
Total accumulated depreciation	6,701,069	417,488	112,791	7,005,766
Total capital assets being depreciated, net	8,882,902	(294,849)	0	8,588,053
Governmental activities capital assets, net	\$ 9,142,518	3,084,509	0	12,227,027

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 31,782
Support services:	
Administration	920
Operation and maintenance of plant	10,654
Transportation	102,996
	146,352
Unallocated depreciation	271,136
Total governmental activities depreciation expense	\$ 417,488
Business-type activities:	
Food services	\$ 8,518
Total business-type activities depreciation expense	\$ 8,518

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 5,555,000	0	600,000	4,955,000	625,000
Revenue bonds	0	5,010,000	0	5,010,000	0
Early retirement	1,535,323	307,302	416,344	1,426,281	424,962
Total	\$ 7,090,323	5,317,302	1,016,344	11,391,281	1,049,962

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2003			
		Principal	Interest	Total	
2007	3.95 %	\$ 625,000	208,513	833,513	
2008	4.05	650,000	183,200	833,200	
2009	4.10	680,000	156,550	836,550	
2010	4.15	705,000	128,330	833,330	
2011	4.20	730,000	98,720	828,720	
2012-2013	4.30-4.35	1,565,000	102,495	1,667,495	
Total		\$ 4,955,000	877,808	5,832,808	

Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and services tax revenue bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of May 1, 2003			
		Principal	Interest	Total	
2007	3.25 %	\$ -	212,288	212,288	
2008	3.50	550,000	168,093	718,093	
2009	3.50	570,000	149,181	719,181	
2010	3.55	590,000	128,881	718,881	
2011	3.55	615,000	107,639	722,639	
2012-2015	3.55-3.70	2,685,000	199,561	2,884,561	
Total		\$ 5,010,000	965,643	5,975,643	

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$501,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its full-time employees. Eligible certified employees must be at least age fifty-five. Eligible employees must be at the top of his/her salary schedule lane, or on Step 15 or above and they must be an employee of the District for at least 10 years. Non-certified employees must be an employee of the District for at least 10 years. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 100 percent of their contracted salary, paid out over a ten year period (exclusive of supplemental pay or extended contract pay.) Early retirement benefits paid during the year ended June 30, 2006, totaled \$416,344. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

(6) Advance Refunding

On February 1, 1999, the District issued refunding bonds in the amount of \$6,510,000 to advance refund \$5,800,000 of outstanding general obligation bonds. The proceeds of the refunding issued have been placed in an irrevocable escrow account and have been added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunded bonds. At June 30, 2006, \$5,020,000 of such bonds are outstanding. Repayment of principal and interest for the year was \$470,000 and \$359,150.

(7) Capital Lease Payable - Enterprise Fund

The District entered into an agreement for the leasing of equipment. Since the leases meet the criteria for capital leases, the present value of the future lease payments using an imputed interest rate of 5.58% has been reported as a capital lease payable. The following schedule of the future minimum lease payments and the present value of the minimum lease payments under agreements in effect at June 30, 2006.

<u>Year Ending June 30,</u>	<u>2004 Isuzu Truck Payments</u>
2007	\$ 8,544
2008	8,544
Total minimum lease payments	17,088
Less amount representing interest	1,191
Present value of future lease payments	<u>\$ 15,897</u>

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$512,473, \$491,931 and \$491,312 respectively, equal to the required contributions for each year.

(9) Risk Management

The District has a self-funded dental insurance plan. Total out of pocket expense per participant is \$1,000. Settle claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$18,546 at June 30, 2006.

Knoxville Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$588,615 for

the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance

At June 30, 2006, there was a deficit fund balance in the Special Revenue Fund, Management Fund of \$53,142.

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the instruction function exceeded the amount budgeted.

(13) Construction Commitment

The District has entered into various contracts totaling \$5,220,764 for the capital construction of the secondary campus building addition and renovations. As of June 30, 2006, costs of \$3,575,008 had been incurred against the contracts. The balance of \$1,645,756 remaining at June 30, 2006 will be paid as work on the project progresses.

(14) Contingencies

As of June 30, 2006, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual	Actual			Variance -
						Positive
						(Negative)
Revenues:						
Local sources	\$ 7,778,223	465,188	8,243,411	8,077,014	8,077,014	166,397
State sources	9,661,328	8,666	9,669,994	9,721,817	9,721,817	(51,823)
Federal sources	515,121	312,475	827,596	755,000	755,000	72,596
Total revenues	17,954,672	786,329	18,741,001	18,553,831	18,553,831	187,170
Expenditures:						
Instruction	10,484,553	0	10,484,553	9,653,635	9,653,635	(830,918)
Support services	4,730,908	688	4,731,596	5,802,500	5,802,500	1,070,904
Non-instructional programs	100	701,518	701,618	758,500	758,500	56,882
Other expenditures	5,362,676	0	5,362,676	2,534,526	5,834,526	471,850
Total expenditures	20,578,237	702,206	21,280,443	18,749,161	22,049,161	768,718
Excess(deficiency) of revenues over(under) expenditures	(2,623,565)	84,123	(2,539,442)	(195,330)	(3,495,330)	(955,888)
Other financing sources, net	5,010,000	0	5,010,000	0	0	(5,010,000)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	2,386,435	84,123	2,470,558	(195,330)	(3,495,330)	(5,965,888)
Balance beginning of year	2,543,614	306,220	2,849,834	3,770,335	3,770,335	(920,501)
Balance end of year	\$ 4,930,049	390,343	5,320,392	3,575,005	275,005	5,045,387

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted on budget amendment increasing budgeted expenditures by \$3,300,000.

During the year ended June 30, 2006, expenditures in the instruction function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds					Total	
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments:							
U.S. Treasury Securities	\$ 0	0	0	0	0	646,365	646,365
Other	(61,891)	15,511	53,326	2,067	9,013	71,097	80,110
Receivables:							
Property tax:							
Current year delinquent	8,749	0	1,747	0	10,496	15,561	26,057
Succeeding year	450,000	0	58,436	0	508,436	833,513	1,341,949
TOTAL ASSETS	\$ 396,858	15,511	113,509	2,067	527,945	1,566,536	2,094,481
LIABILITIES AND FUND EQUITY							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 450,000	0	58,436	0	508,436	833,513	1,341,949
	450,000	0	58,436	0	508,436	833,513	1,341,949
Fund equity:							
Fund balances:							
Reserved for:							
Debt Service	0	0	0	0	0	733,023	733,023
Unreserved:							
Undesignated	(53,142)	15,511	55,073	2,067	19,509	0	19,509
Total fund balances	(53,142)	15,511	55,073	2,067	19,509	733,023	752,532
TOTAL LIABILITIES AND FUND EQUITY	\$ 396,858	15,511	113,509	2,067	527,945	1,566,536	2,094,481

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds					Total
	Physical Plant and Equipment				Total Special Revenue Funds	Total Other Nonmajor Governmental Funds
	Manage-ment	Student Activity	Levy	Expendable Trust	Revenue Funds	Debt Service
REVENUES:						
Local sources:						
Local tax	\$ 451,604	0	93,756	0	545,360	835,063
Other	0	526,658	493	304	527,455	21,326
TOTAL REVENUES	451,604	526,658	94,249	304	1,072,815	856,389
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	356,647	0	0	0	356,647	0
Other instruction	0	541,685	0	0	541,685	0
Support services:						
Administration services	456	331	0	0	787	0
Operation and maintenance of plant services	0	0	8,837	0	8,837	0
Non-instructional programs:						
Other enterprise operations	0	0	0	100	100	0
Other expenditures:						
Facilities acquisitions	0	0	34,660	0	34,660	0
Long-term debt:						
Principal	0	0	0	0	0	600,000
Interest and fiscal charges	0	0	0	0	0	233,555
TOTAL EXPENDITURES	357,103	542,016	43,497	100	942,716	833,555
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	94,501	(15,358)	50,752	204	130,099	22,834
OTHER FINANCING SOURCES:						
Transfers in	0	0	0	0	0	633,773
TOTAL OTHER FINANCING SOURCES	0	0	0	0	0	633,773
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	94,501	(15,358)	50,752	204	130,099	656,607
FUND BALANCE BEGINNING OF YEAR	(147,643)	30,869	4,321	1,863	(110,590)	76,416
FUND BALANCE END OF YEAR	\$ (53,142)	15,511	55,073	2,067	19,509	733,023

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Boys Basketball	\$ 33,749	11,525	9,651	35,623
Football	50,861	24,092	23,398	51,555
Boys Soccer	1,769	2,299	2,385	1,683
Baseball	(49,774)	7,604	13,292	(55,462)
Boys Track	(9,681)	1,993	3,442	(11,130)
Boys Cross Country	(11,032)	390	790	(11,432)
Boys Tennis	(4,815)	100	1,210	(5,925)
Boys Golf	(9,575)	280	1,119	(10,414)
Wrestling	(9,886)	3,906	6,212	(12,192)
Girls Basketball	18,036	7,939	6,754	19,221
Volleyball	(5,654)	4,971	7,688	(8,371)
Girls Soccer	(6,293)	1,814	4,043	(8,522)
Softball	(26,318)	3,334	6,892	(29,876)
Girls Track	(19,325)	894	2,068	(20,499)
Girls Cross Country	(7,472)	390	1,088	(8,170)
Girls Tennis	(3,794)	600	375	(3,569)
Girls Golf	(8,033)	1,268	1,727	(8,492)
State Tournament	0	3,334	3,334	0
HS General Athletics	(106,502)	7,909	9,951	(108,544)
Drill Team	(9,266)	0	0	(9,266)
Cheerleading	(5,578)	0	500	(6,078)
Pepsi Pop Fund	8,964	14,320	13,444	9,840
MS Baseball Club	204	0	0	204
Panther Basketball	1,234	5,380	6,296	318
HS Cheerleaders	2,015	3,947	4,256	1,706
Drill Team	2,822	17,615	17,406	3,031
Baseball Club	10,031	24,408	23,037	11,402
Pantherette Girls	4,341	7,852	10,271	1,922
Girls Softball Parents	9,330	8,648	8,552	9,426
Lift A Thon	744	3,925	4,677	(8)
Panther Club	2,475	1,056	1,565	1,966
Pantherette Soccer	144	0	35	109
Volleyball Club	1,308	8,294	8,002	1,600
Panther Soccer	573	1,844	475	1,942
Construction Trades	37,759	1,000	0	38,759
Industrial Arts	173	163	0	336
Farm Account	790	0	0	790
FFA Account	5,304	61,509	56,925	9,888
FCCLA Account	1,742	5,248	5,537	1,453
HS Band	5	2,026	2,268	(237)
HS Vocal	856	1,778	1,297	1,337
HS Science Club	3,572	10,454	9,605	4,421
HS Camera Club	4,573	15,538	16,994	3,117
HS Drama Club	130	4,451	3,943	638
MS Band	39	91	0	130
MS Vocal	20,220	8,572	5,263	23,529
Middle Student Advisory	14,117	20,556	20,607	14,066
Middle Beta Club	689	182	312	559
Sophomore Class	40	0	(55)	95
Freshman Class	95	0	69	26
Senior Class	1,154	0	233	921
Junior Class	2,454	18,275	18,989	1,740
Middle Book Fair	1,624	5,118	3,926	2,816
Team Nutrition Club	1,464	2,099	3,936	(373)
International Club	848	596	321	1,123
Misc. General Library	72	0	0	72
Student Senate	661	2,294	2,555	400

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2006

Account (Continued)	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Spanish Club	0	333	0	333
Student Council	2,500	0	0	2,500
Activity Interest	1,557	330	(308)	2,195
K-Fund Yearbook	5,505	21,935	17,852	9,588
School Nurse	455	0	0	455
Auditorium Project	5,388	7	(1)	5,396
Collins Fund	2,287	2,795	659	4,423
HS Activity Tickets	0	9,025	9,025	0
HS Resale	941	7,647	6,357	2,231
HS Student Teacher	2,224	1,985	1,686	2,523
Panther Club Scholarship	10,679	53	(223)	10,955
Student Senate Scholarship	1,703	74	67	1,710
Middle Activity Tickets	0	5,270	5,270	0
Middle Resale	5,758	5,219	5,194	5,783
Middle Student Teachers	1,578	271	786	1,063
Middle Music Resale	33	438	451	20
6th Grade Resale	598	0	0	598
7th Grade Resale	4,017	3,262	5,129	2,150
8th Grade Resale	536	1,411	1,076	871
Middle Annual/Yearbook	2,011	5,625	6,267	1,369
Goal Activity	2,190	1,995	708	3,477
HS Pepsi Pop Fund	21,675	52,920	49,720	24,875
FCCLA CD	1,280	16	(3)	1,299
HS Athletic Savings	1,663	0	(1,395)	3,058
West Activity Tickets	0	200	200	0
West Resale	3,060	47	552	2,555
West Student Teachers	2,628	1,436	3,890	174
West Book Fair	2,892	8,052	10,020	924
West K-2 Snacks	159	1,857	2,024	(8)
West Student Council	2,583	1,593	2,819	1,357
Northstar Activity Tickets	0	870	870	0
Northstar Resale	11,361	5,087	2,911	13,537
Northstar Student Teachers	1,191	400	193	1,398
Northstar Book Fair	6,203	10,177	11,015	5,365
Northstar Birthday Book	78	0	0	78
Northstar Student Council	497	1,772	1,788	481
East Elem. Activity Tickets	0	510	510	0
East Resale	9	503	436	76
East Student Teachers	0	600	600	0
East Book Fair	4,449	7,191	9,626	2,014
East Doughnut Resale	956	9,942	9,086	1,812
MS Boys Basketball	7,399	2,291	1,738	7,952
MS Football	(15,977)	2,732	2,287	(15,532)
MS Baseball	(12,699)	0	2,704	(15,403)
MS Boys Track	(478)	1,558	4,701	(3,621)
MS Cross Country	(20)	0	0	(20)
MS Wrestling	(498)	2,887	4,166	(1,777)
MS Girls Basketball	2,094	1,394	1,711	1,777
MS Volleyball	3,425	1,735	1,183	3,977
MS Softball	(8,258)	0	1,231	(9,489)
MS Girls Track	(6)	1,332	2,133	(807)
MS General Athletics	(8,740)	0	(1,355)	(7,385)
Total	\$ 30,869	526,658	542,016	15,511

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 JUNE 30, 2006

	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	Total
ASSETS					
Cash and pooled investments	\$ 478	581	903	105	2,067
TOTAL ASSETS	\$ 478	581	903	105	2,067
FUND EQUITY					
Fund balances:					
Unreserved, undesignated	\$ 478	581	903	105	2,067

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2006

	Locke Memorial	Tunie Memorial	Cox Scholarship	Norton Scholarship	Total
REVENUES:					
Local sources:					
Interest on investments	\$ 1	2	1	0	4
Contributions and donations	0	0	300	0	300
TOTAL REVENUES	1	2	301	0	304
EXPENDITURES:					
Non-instructional programs:					
Other enterprise operations:					
Scholarships	100	0	0	0	100
TOTAL EXPENDITURES	100	0	0	0	100
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(99)	2	301	0	204
FUND BALANCE BEGINNING OF YEAR	577	579	602	105	1,863
FUND BALANCE END OF YEAR	\$ 478	581	903	105	2,067

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUND
 JUNE 30, 2006

Governmental Activities:			
Internal Service Funds			
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
ASSETS:			
Cash and pooled investments	\$ 140,910	18,546	159,456
Receivables:			
Accounts	480	0	480
TOTAL ASSETS	141,390	18,546	159,936
LIABILITIES:			
Accounts payable	51,037	0	51,037
TOTAL LIABILITIES	51,037	0	51,037
NET ASSETS	\$ 90,353	18,546	108,899

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 INTERNAL SERVICE FUND
 YEAR ENDED JUNE 30, 2006

	Governmental Activities:		
	Internal Service Funds		
	Self-funded	Self-funded	
	Health	Dental	
	Insurance	Insurance	Total
OPERATING REVENUES:			
Local sources:			
Employee contributions	\$ 2,089,306	162,817	2,252,123
TOTAL OPERATING REVENUE	2,089,306	162,817	2,252,123
OPERATING EXPENSES:			
Support services:			
Administration services:			
Benefits	1,980,595	150,794	2,131,389
TOTAL OPERATING EXPENSES	1,980,595	150,794	2,131,389
CHANGE IN NET ASSETS	108,711	12,023	120,734
NET ASSETS BEGINNING OF YEAR	(18,358)	6,523	(11,835)
NET ASSETS END OF YEAR	\$ 90,353	18,546	108,899

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUND
 YEAR ENDED JUNE 30, 2006

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Health Insurance	Self-funded Dental Insurance	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 2,088,826	162,817	2,251,643
Cash payments to employees for services	(1,929,558)	(150,794)	(2,080,352)
Net cash provided by operating activities	159,268	12,023	171,291
Cash flows from non-capital financing activities:			
Interfund loan payments	0	(30,500)	(30,500)
Net cash used in non-capital financing activities	0	(30,500)	(30,500)
Net increase(decrease) in cash and cash equivalents	159,268	(18,477)	140,791
Cash and cash equivalents at beginning of year	(18,358)	37,023	18,665
Cash and cash equivalents at end of year	\$ 140,910	18,546	159,456
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 108,711	12,023	120,734
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in accounts receivable	(480)	0	(480)
Increase in accounts payable	51,037	0	51,037
Net cash provided by operating activities	\$ 159,268	12,023	171,291
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 140,910	18,546	159,456

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	6,436,297	6,271,019	5,406,638	4,913,053
Tuition		435,713	412,584	384,825	381,387
Other		900,892	755,925	684,887	699,016
Intermediate sources		0	0	300	1,000
State sources		9,666,649	9,266,712	8,566,918	8,786,235
Federal sources		515,121	526,675	525,896	435,357
Total	\$	17,954,672	17,232,915	15,569,464	15,216,048
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	6,232,711	5,859,910	5,618,174	5,589,416
Special instruction		2,059,686	2,310,021	2,000,372	1,901,912
Other instruction		2,192,156	1,314,612	1,201,591	1,226,426
Support services:					
Student services		429,577	688,674	679,614	699,172
Instructional staff services		389,630	821,959	673,089	632,391
Administration services		1,859,177	1,683,840	1,529,732	1,539,928
Operation and maintenance of plant services		1,514,703	1,375,891	1,395,117	1,369,916
Transportation services		537,821	541,570	427,597	452,659
Other support services		0	1,750	73,529	93,511
Non-instructional programs					
Food service		0	0	3,500	6,080
Community service and education operations		0	9,976	3,884	0
Other enterprise operations		100	0	0	0
Other expenditures:					
Facilities acquisitions		3,903,561	844,960	496,057	187,865
Long-term debt:					
Principal		600,000	565,000	540,000	505,000
Interest		270,500	261,765	291,003	325,532
AEA flow-through		588,615	566,235	546,076	585,932
Total	\$	20,578,237	16,846,163	15,479,335	15,115,740

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION	10.550	FY 06	\$ 34,318
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	47,429
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	230,728
			<u>278,157</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3375-G	222,784
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 06	4,839
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	9,254
SPECIAL EDUCATION - GRANTS TO STATES (POSITIVE BEHAVIOR SUPPORT)	84.027	FY 06	10,000
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	74,533
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 06	12,294
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 05	6,300
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	13,396
			<u>19,696</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	107,753

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DEPARTMENT OF DEFENSE: FLOOD CONTROL PROJECTS	12.106	FY 06	<u>18,083</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES: MEDICAL ASSISTANCE PROGRAM(MEDICAID)	93.778	FY 06	<u>51,077</u>
TOTAL			<u>\$ 842,788</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Knoxville Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Knoxville Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Knoxville Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 22, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knoxville Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Compliance and Other Matters

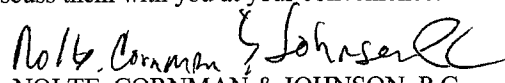
As part of obtaining reasonable assurance about whether Knoxville Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

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Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Knoxville Community School District and other parties to whom Knoxville Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Knoxville Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 22, 2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of the
Knoxville Community School District:

Compliance

We have audited the compliance of Knoxville Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Knoxville Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Knoxville Community School District's management. Our responsibility is to express an opinion on Knoxville Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knoxville Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Knoxville Community School District's compliance with those requirements.

In our opinion, Knoxville Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Knoxville Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Knoxville Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness

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is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Knoxville Community School District and other parties to whom Knoxville Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

August 22, 2006

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Report

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Knoxville Community School District did not qualify as a low-risk auditee.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-06 Drug Free Grant - The final report for Drug Free was not filed timely. As a result, subsequent funding was not received in a timely manner.

Recommendation - The District should file the final report by the due date. The District should monitor timelines for grants to ensure that final reports are filed timely and grant revenues are received for the programs timely.

Response - The quarterly reports will be completed on time.

Conclusion - Response accepted.

- II-B-06 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - The District has created a student activity committee to reviewing procedures in place. We are working on this and modifying procedures to comply with this recommendation.

Conclusion - Response accepted.

- II-C-06 Student Activity Fund - We noted during our audit that invoices were not always used as the source for payment. Items were purchased with purchased orders only. The Science Club purchased a computer, which would appear more as an instructional supply. The District purchased wristbands and a Maytag washer/dryer from the resale account. Public purpose should also be documented for purchases described above.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or requiring support document other than an invoice. In addition, the District should consider adopting a public purpose policy to ensure disbursements, if questioned, are proper and legally sound.

Response - The District has created a student activity committee to reviewing procedures in place. We are working on this and modifying procedures to comply with this recommendation.

Conclusion - Response accepted.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the instruction function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future. The budget was exceeded due to the reclassification of accounts required by the State of Iowa for the certification of the Certified Annual Report.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate set by the State Rate Setting Committee on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - The District has contacted the bank and has rectified the situation.

Conclusion - Response accepted.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely. We noted no significant deficiencies in the amounts reported.

IV-J-06 Financial Condition - The District had a deficit undesignated fund balance of \$53,142 in the Special Revenue, Management Fund. We also noted several accounts in the Special Revenue, Student Activity Fund that had deficit balances at the end of the year.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits. The District should consider additional approval of bills from the Student Activity Fund. A workout plan for the deficit accounts should also be considered for the Student Activity Fund.

Response - The District is addressing the deficits. The Special Revenue, Management Fund deficit will be impacted by the District lowering next year early retirement payout and by paying property and liability insurance out of the General Fund. The Special Revenue, Student Activity Fund accounts are going to be reviewed by a student activity budget committee to address the deficit accounts.

Conclusion - Response accepted.